

REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMDONI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umdoni Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report as set out on pages 2 to 30.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.

7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of financial statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by Umdoni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury as set out in accounting policy note 1.

Audit Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Umdoni Municipality at 30 June 2007 and its financial performance results and cash flows for the year then ended, in accordance with basis of accounting determined by the National Treasury of South Africa as described in accounting policy note 1 to the financial statements, and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my audit opinion, I draw attention drawn to the following matter

11. Basis of accounting (departures and deviations)

The National Treasury approved a deviation from the exemptions relating to section 122(3) of the MFMA that is applicable to the municipality for the 2006/2007 financial year. In addition the National Treasury approved that the municipality may apply the exemptions available to the high capacity municipality in the Annexure to the Gazette No.30013, dated 29 June 2007.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

12. Non-compliance with applicable legislation

Municipal Finance Management Act

- The municipality has not complied with MFMA [(S63(2)(c))] as assets that were disposed off not been approved by council.
- The municipality has not complied with MFMA[(S61 (1)(b))] of the MFMA as deposits held by the municipality were written off in the current period without council approval.

- The municipality has not implemented a fraud prevention plan and risk management to effectively managed its risks in accordance with of the MFMA [S62(1) (c) (i)].
- The municipality did not reconcile revenue on a weekly basis as required by MFMA [(S64)(1)(h)]

13. Material corrections made to the financial statements submitted for audit

The financial statements approved by the Municipal Manager and submitted for audit on 05 September 2007, have been significantly revised in respect of the following material misstatement identified during the audit:

- 13.1. An amount of R835 617 in respect of a loan owing to Hibiscus coast municipality was written off as no obligation could be established.
- 13.2. An amount of R 7, 2 million was recognised as a receivable due to a transfer of powers and functions to the UGU district municipality. The appropriation account as well as the related equity accounts were adjusted accordingly.

14. Internal control

Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Emphasis of matter					
Basis of accounting (Departures and deviations)			✓		
Other matters					
Non-compliance with applicable laws and regulations	✓		✓		
Material corrections to the financial statements			✓		

15. Investigations in progress

- 15.1. An investigation is being conducted to probe the manner in which the rehabilitation of violence damaged housing project was undertaken. The aim of the investigation is to establish if allegations of fraud and corruption was instituted the Umdoni Municipality

together with the Department of Housing. The investigation was still ongoing at the reporting date.

16. Unaudited supplementary schedules

The supplementary information set out on pages 31 to 37 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

17. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

18. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.
20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.
21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

22. Non- compliance with regulatory requirements

23. The municipality budget did not contain the municipality's development priorities and objectives as required by section 25 of the Municipal Systems Act.
24. The municipality has no documented policies and procedures in place for performance management as required by section 41 and 42 of the Municipal Systems Act and section 7(2) of the Municipal Planning and Performance Management regulations.
25. The municipality did not include a financial plan in the Integrated Development Plan as required by section 26(h) of the Municipal systems act and regulation 2(3) of the Municipal Planning and Performance Management system.

26. Late finalisation of the audit report

In terms of section 126 (3) (b) of the MFMA the Auditor-General is required to submit the audit report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented to ensure consistency in the manner in which material audit

findings are reported, I have delayed the finalisation of the audit report to the date reflected on the audit report.

APPRECIATION

27. The assistance rendered by the staff of the Umdoni Municipality during the audit is sincerely appreciated.

Auditor-General

Pietermaritzburg
30 January 2008



AUDITOR-GENERAL